

Changes in Agricultural Markets in Transition Economies

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Introduction

The Central and Eastern European countries (CEECs) and Newly Independent States (NIS) of the former USSR began major market-oriented reform of their economies in the late 1980s and early 1990s.¹ Economic reform has transformed the structure and volume of these countries' agricultural production, consumption, and trade. The dominant development throughout the region is that output has fallen. By the late 1990s, in every transition economy agricultural production was below pre-reform levels, the drop in most countries being in the range of 25 to 50 percent. The contraction has been particularly strong in the livestock sector, with animal herds and livestock production down by about half.

Most agricultural interests in the transition economies view the contraction of agriculture in general, and the livestock sector in particular, as a catastrophe, and argue that reviving output should be a top priority of government policy. Most Western press accounts of transition agriculture during the last decade have painted the reform-driven decline in production in negative terms, using it as an indicator of the many troubles plaguing the sector. The fall in food consumption that has accompanied the drop in output has raised concerns over food security, particularly in Russia and other NIS countries.

Because the severe decline in output has been the key "fact" concerning agriculture's experience during the transition period, and has evoked so much concern, understanding why output has fallen is crucial in determining the nature of the problems facing the sector and the appropriate policy response. In particular, it is essential that the agricultural establishments in the transition economies and Western bodies providing policy

advice and technical assistance (national governments, international organizations, private voluntary organizations) agree on the explanations of the main reform developments (or facts), particularly the contraction of output. Also, Western forecasting studies underestimated the extent to which agricultural output would fall during the transition period. Understanding why the underprediction occurred can help identify problems that were unanticipated or underappreciated at the start of reform and may therefore deserve more attention.

Some publications during the 1990s monitored the contraction of agriculture in the transition economies, examples being the annual reports on transition agriculture by the Organization for Economic Cooperation and Development (OECD) and Economic Research Service (ERS).² These studies appropriately explain the contraction as the natural consequence of policies and market responses that are necessary pieces of the reform process. The analysis, however, is in rather general terms. Jackson and Swinnen (1995) and Macours and Swinnen (2000a) more explicitly examine the causes of agricultural output decline, with Macours and Swinnen quantitatively measuring the contribution of various factors to the CEECs' drop in production in the first half of the 1990s. This ERS study is the first to develop and use a conceptual framework based on supply and demand analysis to analyze how market reform has changed agricultural production, consumption, and trade, with an emphasis on output contraction.

This study has four key objectives: (1) to explain how and why the transition has changed the structure of agricultural production, consumption, and trade; (2) to identify why Western forecasting studies underestimated the production decline; (3) to examine the consequences of commodity restructuring for food security; and (4) to examine output versus productivity growth as competing performance indicators of agricultural reform.

¹ The reforming CEECs include Poland, Hungary, Czech Republic, Slovak Republic, Bulgaria, Romania, Estonia, Latvia, Lithuania, Slovenia, Albania, Croatia, Macedonia, and Bosnia. The NIS include Russia, Ukraine, Belarus, Moldova, Georgia, Armenia, Azerbaijan, Kazakstan, Kyrgyzstan, Uzbekistan, Turkmenistan, and Tajikistan.

² The latest publications of each are OECD (2001) and ERS (1998).